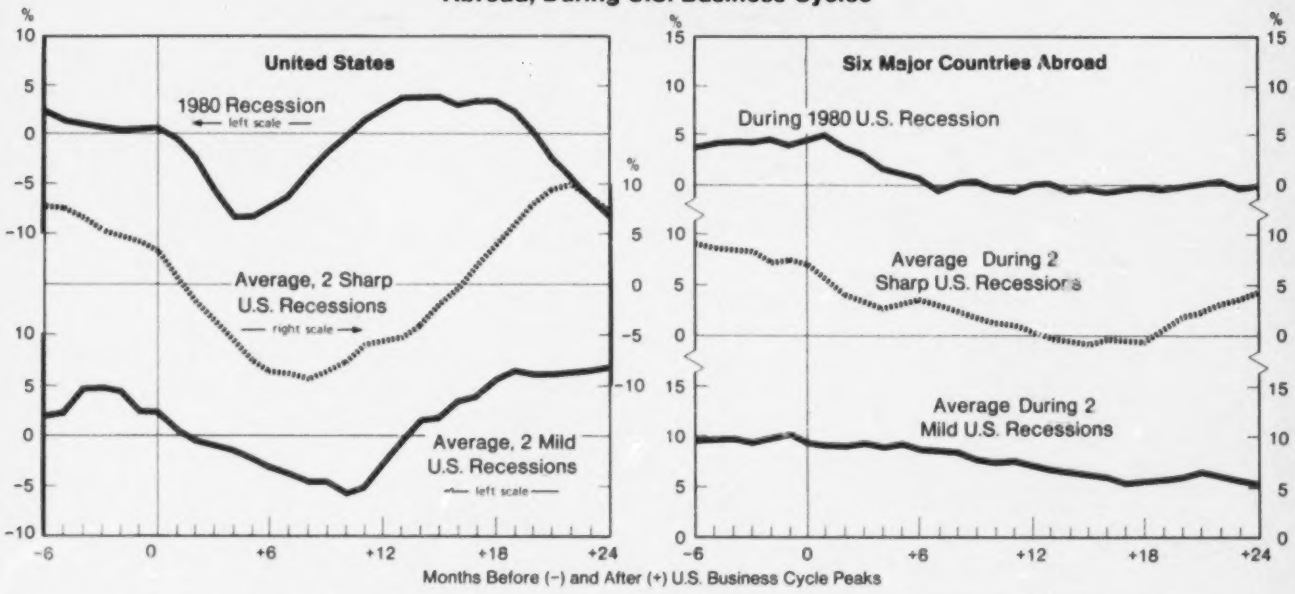
Chart 4

Economic Growth Rates, United States and Major Countries Abroad, During U.S. Business Cycles



Notes: The six countries (right panel) are Canada, Japan, United Kingdom, West Germany, France and Italy. Sharp U.S. recessions took place in 1957-58 and 1973-75; mild U.S. recessions took place in 1960-61 and 1969-70. The growth rates are based upon composite coincident indexes (including output, sales volume, employment and real income) and are percent changes to the current month from the average of the preceding 12 months, expressed at an annual rate.

Source: Center for International Business Cycle Reserch

major exogenous shocks, such as the commodity boom of the early 1970's and the two oil price shocks of that decade. But under "normal" circumstances there is relatively little "synchronization" of fluctuations between the United States and the rest of the industrial world.

That phenomenon is consistent with the relatively small size of the external sector—we are talking about merchandise trade alone—relative to total GNP in the United States. Various studies by the National Bureau of Economic Research, conducted by Geoffrey Moore, have found, moreover, that even though there are common international growth cycles for the major industrial countries, in terms of the degree of association the United States by no means occupies the dominant position.

Monthly trade data for a 15-year period from the late 1950's through the early 1970's, for example, show that U.S. exports to four of its major trading partners grew about six times as fast when those countries were in an expansion phase as when their economies were contracting. U.S. imports from those same four countries, on the other hand, grew only three times as fast during an expansion in economic activity in the United States than during contractions. Thus, the United States could by no means be considered to be the cyclical leader and there is "no support for the popular misconception that the contagion runs in a dominant way from the United States to the other major industrialized nations."[18]

More recently, Moore's work on leading indicators in seven major industrial countries, published bimonthly in The Conference Board's *International Economic Scoreboard,* in a very general way shows only a mild degree of "synchronization" of economic activity between the United States, on the one hand, and Canada, Japan, France, Germany, Italy and the United Kingdom, on the other (see Chart 3). But Moore's investigations have also shown that *sharp* recessions in the United States tend to spill over into other economies, while mild or "normal" ones are much less noticeable in other countries. This is borne out in Chart 4, which is based on the so-called coincident indicators and provides a comparison of the 1980-1981 experience in the United States with previous U.S. recessions that were sharp (1957-1958 and 1973-1975) and milder ones (such as in 1960-1961 and 1969-1970).

[18]Geoffrey H. Moore and Philip A. Klein, *New International Business Cycle Indicators System: Applying the NBER Indicator Approach to International Growth Cycles.* New York: National Bureau of Economic Research, 1975, mimeographed, p. 29.

Chart 5

United States Exports and an Export-Oriented Leading Index

Source: Center for International Business Cycle Reserch

Moreover, Moore's research also lends support to the contention, spelled out above, that the pace and direction of economic activity abroad exerts a strong impact on U.S. exports. With the help of a specially constructed leading index for the other six countries—that is, one oriented to U.S. exports—he has shown that the general configurations of total U.S. exports (of both goods and services) and of the six-country index are fairly similar—and this despite the fact that about half of U.S. exports go to countries other than the six.[19] The decline and recovery from the 1974-1975 recession are clearly reflected (see Chart 5), as is the slowdown in 1977 and the subsequent acceleration.

The major divergence appears in 1981-1982, when exports dropped appreciably while the six-country index first leveled off and then rose again. This difference can probably be ascribed to the sharp appreciation of the dollar, which made U.S. exports more costly in terms of other currencies.

[19]In this index, each country is weighted according to the dollar value of its 1972 imports from the United States. In the regular index in the *Scoreboard*, the weights are based on each country's GNP.

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Research Bulletin

U.S. Regional Outlook 1983-1984

Summary of a February 1983 Meeting of The Conference Board's Regional Economic Forum

The Conference Board

number 137

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The Conference Board's fifth annual regional economic forum met in February, 1983, gathering eight experts from around the country. The Forum's deliberations are summarized in this report.

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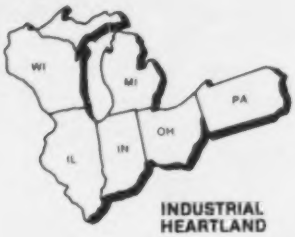
HIGHLIGHTS

New England's recent economic performance has compared even more favorably with the nation's than it did in the 1980 slump. The major difference between the region and the nation in 1981-1982 was the stronger performance in New England of nonmanufacturing industries—especially construction—and of durable goods manufacturing. Recovery in the region will be aided by rising defense spending, but dampened by New England's orientation to the production of capital goods and to export markets.

NEW ENGLAND



INDUSTRIAL HEARTLAND

The outlook for the Industrial Heartland depends heavily on conditions in its major industries, such as steel, motor vehicles, machine tools, agricultural and construction equipment, and electrical machinery. The currently depressed condition of those industries reflects not only the national recession but also a structural shift in the location of production. Consequently, many industries in the Heartland are unlikely to regain their previous peaks even in a national recovery, and much of the region will have to wait many months for an upturn.

New York and New Jersey managed to hold off the effects of the national recession until about a year ago. No region could expect to escape the effects of such a severe recession, but the Mid-Atlantic economy has performed better than the nation at large. There is much underlying strength now in the region, but the Mid-Atlantic outlook depends importantly on economic recovery not only in the United States but also abroad, for the region has become more closely tied to the global economy in recent years.

MID-ATLANTIC

SOUTHEAST

Demand must strengthen not just in national but also in international markets before the Southeast can expect a significant recovery. A construction upturn in 1983 will be a significant plus, for construction is important in the Southeast and the region is also a lumber producer. Other pluses in 1983 will be the furniture, stone-clay-glass, metals and transportation equipment industries; defense-related jobs will also grow briskly. However, slow growth in foreign markets will be a damper on industries producing for export.

A NOTE ABOUT REGIONS

The definitions established by the Census Bureau are probably the most familiar to users of regional data, and they are used here with only one amendment—a different treatment of Pennsylvania. The relationship of The Conference Board Forum's regions to the Census Bureau's regional divisions is as follows: New England = New England; Mid-Atlantic = Middle Atlantic less Pennsylvania; Industrial Heartland = East North Central plus Pennsylvania; Southeast = South Atlantic plus East South Central; Breadbasket = West North Central; Southwest = West South Central; Mountain = Mountain; Pacific = Pacific.

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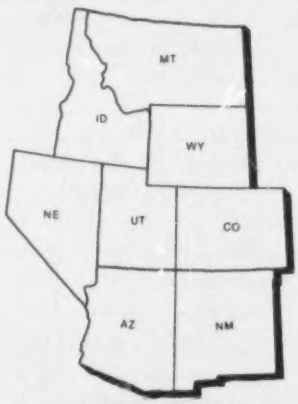
American farmers are entering a fourth year of financial distress. Solution of current farm problems requires both a rebuilding of demand and an adjustment in supplies, and thus depends on economic recovery here and abroad, the success of acreage-reduction programs, and—as always—the weather. Gradual demand improvement is expected over the next several years, although foreign markets will be slow to recover. With improving demand and reduction of excess stocks, farm income may rise in 1984.

AMERICA'S BREADBASKET

SOUTHWEST

The recession finally hit the Southwest in 1982, although unemployment rates in the region remain below the national average. The Southwest's outlook hinges in large part on the nation's, and national recovery will have a positive effect on the region's centers of defense, high-tech and financial industry; it will also help agriculture. However, the Southwest remains highly dependent on energy exploration and production, and the "oil patch" will remain in recession in 1983. Gulf Coast industrial areas will also remain weak, and the Mexican border economy is in very bad shape.

The 1981-1982 slowdown in the Mountain region was less severe than in many other areas, but the shift from late 1970's boom was very noticeable and not without pain. Deflation of the energy boom was a major factor, but the effects of the national recession were more pervasive. National recovery, and lower interest rates, will boost construction, manufacturing, services and tourism, but mining and agriculture will take longer to recover and declining oil prices could dampen the region's large oil and gas industry.



MOUNTAIN STATES

PACIFIC

The Pacific outlook is cautiously optimistic. Defense orders and reviving commercial airline activity should gradually restore jobs in the regionally important aerospace industry, with growth accelerating in 1984. California, Oregon and Washington will be helped by the home-building recovery now under way. Alaska's economic health is vulnerable to a further drop in oil prices, and Hawaii's agriculture is facing difficulties. However, the Pacific region should enjoy growth in jobs and income somewhat faster than the national average in 1983 and 1984.

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Some Recovery At Hand—An Overview

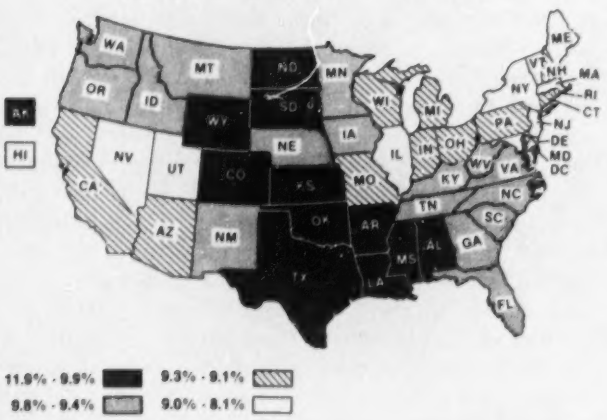
Lora S. Collins
The Conference Board

Lora S. Collins

DISCUSSION at the Spring, 1983, meeting of The Conference Board's Regional Economic Forum confirmed the view expressed a year earlier that every region of the country, and virtually every industry, has been palpably affected by the slump of the 1980's. Despite the considerable differences among regions, national economic conditions are the single most important influence on any region's economy, and for this reason no region is truly recession-proof. In short and mild recessions, however, fast-growing regions have sometimes taken little notice of the recession-induced slowdown in their growth. But the slump of the 1980's has been neither short nor mild. It has been characterized by fairly severe readings on all three criteria of recession—depth, duration, diffusion—and its impact has consequently been pervasive. Although the business cycle chronology of the National Bureau of Economic Research identifies a short recession in 1980 followed by a short recovery to mid-1981, the economy has, in effect, been in recession for the past three years. The reason is that national economic policy has been determined to wring inflation out of the system despite the associated pain. As the 1982 Regional Economic Forum noted, this proved to be not a blitzkrieg but a war of attrition.

Much the same thing has been happening abroad, making the early 1980's period of worldwide disinflation entailing conscious repression of economic activity. This has made for a considerably harsher environment than that of the typical postwar business cycle downturn; the usually cyclical industries have been hit with more than typical severity, while the impact on the rest of the economy has also been unusually sharp. Forum participants noted that the slump—domestic and worldwide—had contributed significantly to deflating the oil boom, to weakening the markets for agricultural output, and generally to eroding foreign markets for U.S. goods.

Average Annual Growth of Per Capita Personal Income, 1970-1981



Industry Composition of Regional Economic Growth, 1971-1981
Percent breakdown of the total change in earned income

	Farm	Construction	Mining	Manufacturing: Durables	Manufacturing: Non-durables	Finance, Insurance, Real Estate	Government	Trade, Services, Transport, Utilities
New England	0.4	2.8	0.1	25.4	8.0	6.8	12.4	44.1
Industrial Heartland	1.1	3.7	1.3	25.4	8.7	5.5	12.5	41.8
Mid-Atlantic	0.4	2.1	0.2	13.5	9.5	9.8	14.7	49.8
Southeast	0.7	5.0	1.8	11.8	12.1	6.0	20.2	42.4
Breadbasket	2.8	5.1	1.8	15.5	8.8	5.9	14.3	45.8
Southwest	0.8	8.2	10.2	12.7	7.9	5.0	12.7	42.5
Mountains	0.7	7.8	7.8	11.4	3.9	5.3	17.2	45.9
Pacific	1.9	6.0	0.9	16.8	6.0	6.6	15.8	46.0
United States	1.3	5.1	2.7	16.7	8.4	6.1	15.3	44.4

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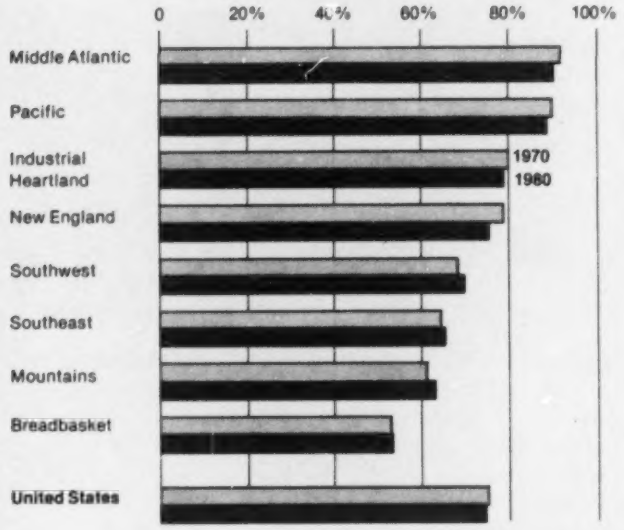
Percent of Population Living in Metropolitan Areas, 1970 and 1980



Also, the high exchange value of the dollar is, at least in part, an offshoot of the past three years' anti-inflationary monetary policy, and the high exchange rates have significantly curbed U.S. exports while attracting foreign goods into U.S. markets. A striking element in the regional experts' reports is their unanimity over the importance of the rest of the world—as a market, a competitor, and a debtor.

Although the 1983 Forum touched on many of the same themes discussed a year earlier, the general attitude this year was hopeful whereas in 1982 it was bleak. The Forum participants were confident that 1983 will be a year of economic growth, because of the Federal Reserve's manifest shift last year to a policy of facilitating and supporting growth. While hopeful, however, the Forum was subdued. For one thing, the participants expect only a modest rate of growth this year (a 2½ to 3½ percent rise in real GNP from 1982 to 1983).

In addition, they are worried about the fragility of financial markets domestically and worldwide, and they are unsure about what really to believe about economic policy—and thus about prospects beyond 1983. There was a definite sense among the Forum participants that a truly significant change has occurred in the U.S. economy, away from persistent inflation and, perhaps, toward better economic growth. But this was far from a firm conviction, and the group worried that the realistic thing might be to expect yet another round of inflationary boom followed by anti-inflationary slump. In sum, the participants were reasonably optimistic about the very near term but uncertain and uneasy about the longer term policy path.

There was a good deal of discussion at the Forum meeting about "structural change." The disinflation of the early 1980's, if permanent, is a structural change of considerable significance with many ramifications yet to unfold. There was, of course, talk about the structural changes in costs and technology that are shifting old-line durable goods industries away from the Industrial Heartland and from the United States altogether. It was also noted that the mining industry, especially its non-petroleum segments, is similarly going through a period of structural change that is shifting activity to other parts of the world, and that structural changes in agriculture are making it more similar to the rest of the economy and less likely to march to its own tune. Two elements in the Forum's discussion of structural change are worth noting. One is that it is always occurring, in one part of the economy or another, because neither technology nor relative costs stand still. Although structural change may seem unprecedented and unique to those who are directly affected, the process really is an old story. The other point is that we have generally not tried to block structural change in the United States and, therefore, it happens very quickly here. The Forum participants felt that this is a positive element in the U.S. economy, one that makes for flexible and efficient use of resources. They reiterated the sentiments of past Forum meetings, in opposition to protecting industries—or regions—from the change associated with a dynamic economy.

New England

Katharine L. Bradbury
Federal Reserve Bank of Boston

The 1981-1982 recession has fallen much more heavily on New England than did the 1980 downturn. Yet New England's economic performance compares even more favorably with the nation's than it did in 1980. In the 1980 recession, the peak-to-trough decline in employment

Katharine L. Bradbury

was just under 1 percent in New England, just over 1 percent in the nation. From the peak in July, 1981, to December, 1982, employment fell 2 percent in New England and 3 percent in the nation.

The major difference between the region and the nation, particularly in recent months but also over the entire course of the 1981-1982 recession, is the stronger performance of New England's nonmanufacturing sector. The service industries accounted for most of the region's increase in nonmanufacturing jobs, but the industry in which New England's experience differed most markedly from that of the nation was not services but construction. Construction employment in New England in late 1982 was about 4 percent ahead of construction employment around the pre-recession peak, while national construction employment was 9 percent lower than at the pre-recession peak.

The other sector in which New England's performance has been superior to that of the nation is durable goods manufacturing. The difference here is due in part to the strong performance of individual New England industries, and in part to industry mix. However, while employment has fallen less in New England than in the nation, the present situation bears little resemblance to conditions in the 1980 recession, when durable goods employment fell only 1½ percent in New England, compared with 6½ percent nationwide. In contrast, from the cyclical peak in July, 1981, to November, 1982, durable goods employment fell 10 percent in New England and 14 percent in the nation. New England's rate of decline has been about two-thirds of the nation's throughout the recession.

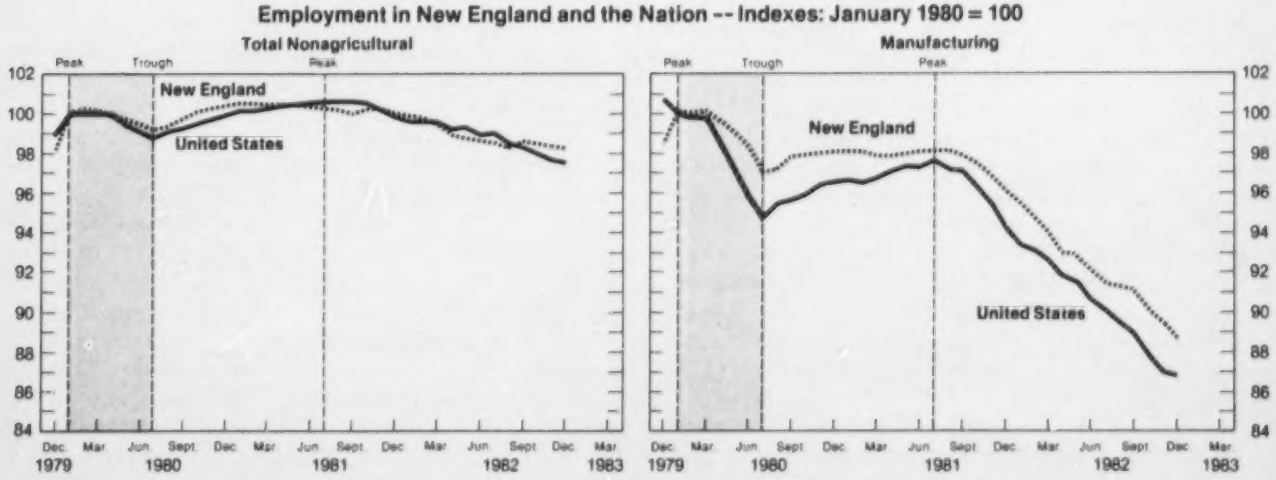
The New England durable goods industries that have suffered the greatest employment losses are primary metals, instruments and fabricated metals. The New England durable goods industries with the smallest declines in employment are electrical and electronic equipment—consistent with national experience. However, the New England decline in transportation equipment jobs was smaller than that nationally, even after taking into account that transportation equipment in New England is dominated by aircraft and shipbuilding rather than automobiles. New England's relative strength in transportation equipment, and also in electrical equipment, may be attributable to defense spending. For the most part, the decline in New England's durable goods industries appears to be cyclical rather than secular in nature, and there is little reason to believe that employment in this sector will not recover fully in the national upturn.

Not so for nondurable goods manufacturing. New England's textile industry and, to a lesser extent, other traditional nondurable goods industries have not been able to compete successfully with industries abroad and in the southern states. Time and again, employment has fallen sharply in recessions and made only a partial recovery in the ensuing expansions. This pattern shows signs of repeating itself. Nondurable goods employment in New England (of which textiles makes up about 10 percent) in late 1982 was 9 percent below the level at the July, 1981, cyclical peak and 12 percent below the peak before the 1980 recession.

New England's economic performance compares even more favorably with the nation's when one looks at unemployment rates rather than changes in employment. In December, 1982, the unemployment rate in New England was 7.7 percent—three points below the national rate of 10.8 percent. What makes these figures remarkable is that in the 1975 recession, the unemployment rate was highest in New England of all the major regions, and in 1977, in the middle of an expansion, New England's unemployment rate was the same as it was in late 1982.

Several aspects of the New England economy make it

Employment in New England and the Nation -- Indexes: January 1980 = 100



likely that the region will do no worse than the national economy during the expected national economic recovery, but the region's upturn will be less sharp, more u-shaped. This is partly because the downturn in New England has not been as severe as nationally in most industries. But it also depends on the interplay of several important sectors in New England: defense, exports and investment goods. Defense continues to be a steady source of employment strength in New England. Nationally, defense spending is expected to grow over 5 percent annually in real terms over the next several years, which will be faster than the rest of the economy. New England receives about 12 percent of the nation's prime defense contracts, although it has only 7 percent of the nation's manufacturing employment, and only 5½ percent of the nation's population.

In contrast, New England's manufacturing orientation to capital goods will not work to the region's advantage in this recovery. Investment spending typically lags the economy's upturn, and given the slow and uncertain nature of this recovery and continued higher-than-usual interest rates, the lag may be greater than usual. New England producers export an above-average fraction of their output; this is another factor in the expectation of a more gradual recovery in the region than in the nation. Although the dollar is expected to weaken gradually as the trade imbalance worsens and as U.S. interest rates come down, U.S. producers will still be at an international disadvantage. In addition, most analysts believe the United States must lead international markets out of the recession. This will be especially true for New England exports, which are mostly capital goods.

For all these reasons, it seems likely that New England will see some recovery as the nation does, but that the regional recovery will start more gradually. Even though it may follow a u-shape, there is no reason to believe that this recovery will not, overall, put New England in as strong a position as the nation over the next two years.

"The Industrial Heartland"

Wynn V. Bussmann
TRW

Wynn V. Bussman

The outlook for the Industrial Heartland is largely influenced by the future of some of the individual industries concentrated around the Great Lakes: steel, motor vehicles, machine tools, agricultural and construction equipment, and electrical machinery. The current depressed economic conditions in those industries are the result of two principal forces at work: the general economic cycle and a structural shift in the location of efficient production. Each of these forces will have a significant impact on the future of the industries and the region.

In a strict technical sense, the U.S. economy has experienced two recessions in the last three years. However, in a broader sense, the economy in general and many of the manufacturing industries concentrated in the Industrial Heartland in particular have been in one long slump since 1978. For example, production of cars in the United States peaked at 9.2 million units in 1978 and fell steadily to 5.7 million units in 1982. The production of iron and steel fell from 113.5 percent of its 1967 average in 1978 to 62.4 percent last year. And, were it not for an increase in 1981 in the production of office and service equipment, the production of nonelectrical machinery would have declined steadily from its peak in 1979 through 1982.

The tight anti-inflationary monetary policy begun by the Federal Reserve in 1979, and concentrated in 1981, is a prime reason for the length and severity of the economic downturn. The tight money policies not only produced a direct dampening of demand in the United States but also, by raising interest rates to record-high levels, strengthened the value of the dollar, thus giving imported goods a price advantage over their domestic substitutes.

This price advantage to imports occurred on top of a structural shift in production costs that had been building up over many years. It used to be that low foreign wage rates were largely offset by higher productivity levels here, allowing most U.S.-made industrial products to compete effectively with imports. However, as higher productivity growth relative to wage inflation occurred overseas—particularly in the Pacific Basin countries—and the reverse forces were at work domestically, high-quality foreign goods came to be more attractively priced. This price advantage resulted in significant gains in import penetration in industries like autos, steel and

machinery—all industries whose bases of manufacture are in the Industrial Heartland.

The same process was occurring among regions in the United States, as many industries followed furniture and textiles to the lower wage areas of the south and southwest. The shift of manufacturing jobs out of one region into another was reflected in slower population growth in the East North Central states than in the rest of the country, as shown in the following table.

Percent Change in Population

	1960-1970	1970-1980
U.S. Total	13.4	11.4
East North Central States	11.1	3.4
Southern States	15.1	21.6

This process was accelerated in the last half of the 1970's by the large increase in the price of oil in 1974. The quintupling of the price of oil within a two-year period made much of the existing stock of manufacturing capital concentrated in the Heartland economically obsolete. The 1979-1980 increase sank the final nails into the coffins of many plants in the area.

As a result of all of these forces, the economic recovery, when it comes, is unlikely to return many of the industries in the Industrial Heartland to their previous peak levels of employment or output. Furthermore, if interest rates remain relatively high, then the economic recovery is likely to be less robust, though perhaps more sustainable, than prior recoveries have been.

Even with a strong economic upturn and a drop in the value of the dollar, the fundamental economic forces leading to declining importance of these industries in the United States and in the Industrial Heartland will not be denied. The hope for the region seems to lie in participating in industries for which the long-term outlook is brighter. Services, electronics, robotics and other new-technology industries have already become more important factors in the region. For example, services comprised 16.6 percent of total employment in the Cleveland SMSA in 1967 and are estimated to have grown to more than 25 percent last year. This increase in the importance of services employment was greater than that in the nation as a whole. Because of the secular decline of many of the region's traditional manufacturing industries, this trend is likely to continue.

Our current forecast is that production of cars in North America will rise from 5.9 million units in 1982 to 6.5 million this year, with production of total vehicles reaching 9.0 million. If consumers use some of the estimated $500 billion increase in their net worth that occurred in the last half of 1982 to purchase cars and houses, then the recovery will undoubtedly be more robust. However, we are assuming that most consumers will be content to sit on their higher asset values so as to rebuild the wealth that was depleted during the past several years.

Investment in plant and equipment is being held back by low capacity utilization and high interest rates. We expect that fixed nonresidential investment will decline by 6.0 percent this year. However, the investment picture for the industries in the Heartland is even bleaker than that. Part of what is keeping total business fixed investment from falling even more is increases in the areas of communications equipment, computers and other electronics, and miscellaneous instruments. Thus, even though the U.S. economy may well see an economic recovery begin early in 1983, much of the Heartland will have to wait until later in the year, or even 1984, to feel its effects.

The Mid-Atlantic

Rosemary Scanlon
Port Authority of New York and New Jersey

Rosemary Scanlon

Both New York and New Jersey managed to hold off the effects of the current national recession until the second quarter of 1982, when declines in manufacturing job levels finally began to outweigh continued gains in the region's service and finance sectors. As a consequence, total job levels began to edge down. Unemployment levels, too, edged up over the year, but 1982 ended with the unemployment rate in each state lower than the national average, and the key construction sector registered positive gains in contrast to the relatively flat national trend. Total personal income in each state increased by 10 percent. What is more, the first population estimates for the 1980's indicate a sharp reversal of the downward trends that prevailed through the 1970's, and population actually grew by a small margin in 1981.

Although no region can expect to ward off for long the effects of such a severe recession, what distinguishes the Mid-Atlantic states at this stage is that their economic performance is in line with the entire northeast, and relatively better than the rest of the nation. This is certainly an improved situation from the severe economic decline in the Mid-Atlantic during the first half of the 1970's.

Total employment in New York State fell by 8,000, or 0.1 percent, in 1982. In New Jersey, the total was off 17,700, or 0.6 percent. In both cases, the rate of job loss was considerably less than the U.S. decline of 1.6 percent during the year.

In New York State, manufacturing employment fell 52,300 in 1982, a 3.6 percent decline, but nonmanufacturing, primarily the service and finance sectors, added 44,000 jobs, in contrast to the declines that engulfed even nonmanufacturing in the rest of the country. Most of the state's economic strength came from New York City and its surrounding metropolitan counties; they were still registering job gains, although at a reduced rate of 0.2 percent, late in 1982. Here the primary thrust was from the service and finance sectors, both of which were still registering growth at the beginning of the fourth quarter.

In New Jersey, the drop in manufacturing employment has been relatively more severe; 43,700 industrial jobs were lost in 1982, a decline of 5.6 percent, close to the 6.5 percent drop nationally. Although jobs in New Jersey's nonmanufacturing sector continued to increase, rising by 26,000 or 1.1 percent, these gains were more than offset by the manufacturing decline. The latter was particularly severe in the primary metals, machinery, transportation equipment (primarily auto assembly), stone-glass-cement, and textile industries.

As the job picture weakened, the unemployment rate in New York State increased from 7.6 percent in 1981 to 8.6 percent in 1982. In New Jersey, the rise was sharper, from 7.3 percent in 1981 to 9.0 percent in 1982. However, both states registered lower rates than the national average of 9.7 percent for the year. The unemployment situation varied dramatically within each state: Several older urbanized areas experienced rates as high as 13.6 percent, but the New York City suburbs recorded a rate of 5.9 percent, almost a record performance compared with the rest of the nation.

Construction activity has remained surprisingly strong in both states: In New York, the dollar volume of contract construction increased by 9.5 percent in 1982; in New Jersey, it rose by 6.2 percent. For comparison, the U.S. total edged up by only 0.7 percent, making for a decline in real terms. Nonbuilding, or infrastructure, construction was particularly strong in upstate New York, and both states registered gains in residential construction, which dropped 3.5 percent in dollar volume in the nation at large. New York City office and hotel building remained firm during the year, although vacancy rates in new office space have edged up slightly and asked rental rates have eased in recent months.

The relatively sturdy economic performance resulted in increases of 10 percent in total personal income in both New York and New Jersey in 1982, contrasted to a 9 percent increase nationally (using data through the third quarter).

Despite a reported decline in the flow of foreign direct investment to the United States, the number of foreign manufacturing investments in the New York-New Jersey metropolitan area continued to grow in 1982. Data on foreign investments in real estate during the past year are not yet available. However, indicative of the strong international business and visitor market, the number of overseas commercial air passengers traveling through the region's three major airports increased by almost 3 percent over 1981. On the debit side, the tonnage of ocean-borne general cargo exports declined by 17.4 percent through the first nine months of 1982, and air cargo exports fell by 12.6 percent. Imports of both ocean-borne and air cargo gained slightly.

Population levels posted a slight increase in the New York metropolitan region during 1981, in sharp reversal to the population decline throughout the 1970's. Although the gain was small, it must be contrasted with an average annual decline of 0.6 percent between 1970 and 1980. All counties in the 17-county metro area registered slight increases, with the exception of Kings (Brooklyn) and Essex (Newark and vicinity) counties.

The Mid-Atlantic outlook for 1983 depends importantly on economic recovery both in the United States and in the rest of the world; the region's economy has become more closely tied to the global economy in recent years. Business services and finance should continue to register gains, but at reduced growth rates from last year, and the prospects are good for some recovery in residential construction and retail sales. Unemployment rates may ease somewhat, but will still be high in comparison with 1979 and 1980. There is much underlying strength now in the Mid-Atlantic economy, which has also been helped by reduced inflation and the prospects for relatively low inflation (approximately 5 percent) continuing in 1983. But a sluggish world recovery, combined with the strong dollar, could dampen this moderately optimistic outlook.

The Southeast

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Southeastern states entered 1983 generally positioned to profit from even a cautious national recovery. Most of the Southeast's products depend upon national and even international markets, so demand at those levels must strengthen before the region can expect a significant upturn. Florida and Georgia should continue to outperform the nation as well as other states in the region this year. The economies of Alabama, Mississippi and Tenessee will depend importantly on the strength of the rebound in the interest-sensitive auto and housing industries. South Carolina's recovery will hinge on the strength of consumer spending. Louisiana, heavily dependent on the oil and gas industries, should recover slowly until energy prices firm.

The service-producing sector has held up well throughout the 1981-1982 recession. However, state and local governments are under severe budgetary constraints that may force continuing cutbacks in expenditures and employment in 1983. Residential building permits began to increase at mid-1982, and actual construction began a slight upturn in the Fall. Construction and related industries are major components of the southeastern economy, and southeastern lumbering industries supply an important piece of the nation's requirements. A construction revival typically is felt rather quickly in the Southeast; with further declines in interest rates, the construction industry should provide renewed strength to the southeastern economy this Spring. Also, consumers are likely to accelerate spending. These improvements, combined with anticipated growth in tourism, should move the Southeast to recovery in earnest by the second half of 1983. Tourism activity will be led by travelers headed for Walt Disney World's new Experimental Prototype Community of Tomorrow (EPCOT) in central Florida, but business should pick up throughout the region as incomes increase. The Southeast's financial institutions are also well-positioned to join in recovery.

Alabama, Tennessee and Mississippi in early 1983 had unemployment rates well above the national average, while Louisiana's was slightly above. Among area states, only Florida and Georgia could boast unemployment rates lower than the nation's.

In manufacturing, much of the region's employment weakness has been in durable goods, although important regional nondurables industries such as food and kindred products, textiles and apparel, paper and chemicals have also fared poorly. In 1983, lumber and wood products will gain strength as will furniture, stone-clay-glass, primary and fabricated metals, and transportation equipment. Their pace of recovery will be determined in large measure by consumers' willingness to purchase housing and autos. Defense-related production jobs will grow at a healthy clip, particularly in the electronics and transportation equipment industries.

Slow-growing European, Canadian and Japanese economies may limit the growth of southeastern industries that produce for export. Mining also should expand slowly as coal exports level off, or drop slightly, from 1982. In fact, the entire Southeast will experience slow international trade growth through its ports because of the expected moderate rate of worldwide recovery. The region may even lose some of its trade share because its ports are linked closely to financially troubled countries of Latin America.

Georgia's economy entered 1983 in relatively good condition. Service-producing industries, which are especially important in Atlanta, have proved recession resistent and should continue to provide strength in coming months. Nonresidential construction has held up better than residential during most of the recession, but the reverse is likely to be true in the recovery of 1983. Altanta's office-building market enters 1983 glutted. Georgia's manufacturing is heavily dependent on the recession-prone textile and apparel industries, where recovery threatens to be a prolonged process since demand is dependent on the slowly recovering housing and auto industries. Textiles and apparel will face continued import competition, while the high foreign exchange rate of the dollar will limit exports. Farmers are gradually paying off debts accumulated during droughts in 1977, 1978, 1980, and 1981. Soybean, wheat, cotton and corn producers should have a tough time this year, with 1982 crop surpluses continuing to exert downward pressure on prices. Tobacco and peanut producers should fare moderately well.

Alabama seems likely to recover from the recession later than neighboring states. The state's relatively high concentration in interest rate-sensitive durables manufacturing makes it more susceptible to national downturns than other states and slower to recover. Another critical factor is the dollar's foreign-exchange rate. A high exchange rate has reduced foreign demand for products from Alabama—coal, steel, farm products,